

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-06 ISO-00 CIAE-00 PM-03 H-01 INR-05 L-02

NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-01 XMB-02 OPIC-03

CIEP-01 LAB-01 SIL-01 OMB-01 NEA-06 IO-10 STR-01

CEA-01 AGR-05 /094 W

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P 290716Z NOV 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 8711

INFO AMEMBASSY SEOUL PRIORITY

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 2/28/75

TAGS: EAID, EFIN, KS

SUBJECT: PROPOSED ADB LOAN FOR IMJIN AREA DEVELOPMENT
PROJECT (KOREA)

SUMMARY: ADB MANAGEMENT PROPOSES \$19.0 MILLION
EQUIVALENT LOAN FROM ORDINARY CAPITAL RESOURCES TO
GOVT. OF KOREA TO FINANCE FOREX COST OF CONSTRUCTION
OF PUMPING IRRIGATION SYSTEM SOUTH OF IMJIN RIVER,
APPROXIMATELY 27 KM. NORTH OF SEOUL. PROJECT INCLUDES
LAND CONSOLIDATION AND LAND RECLAMATION WORKS, CON-
STRUCTION OF RIVER DIKES, PROVISION OF AGRICULTURAL
MODERNIZATION FACILITIES, IMPROVEMENT OF VILLAGE WATER
SUPPLY AND CONSULTANT SERVICES. USADB RECOMMENDS
FAVORABLE NAC ACTION.

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1. ADB DOC. R116-74 WITH ATTACHMENTS DESCRIBING

PROPOSED LOAN POUCHES ADDRESSEES NOV. 25. BOARD
CONSIDERATION SCHEDULED DEC. 12.

2. ADB MANAGEMENT PROPOSING \$19.0 MILLION LOAN FROM
ORDINARY CAPITAL RESOURCES TO GOVT OF KOREA. PROCEEDS
WILL FINANCE FOREX COST OF IRRIGATION SYSTEM (7,223
HA.) CONSISTING OF IRRIGATION CANALS, FIVE PUMPING
STATIONS AND TWO REGULATING RESERVOIRS; LAND CONSOLIDATION
OF PADDY FIELDS AND UPLAND AREA (5,694 HA.)
AND RECLAMATION OF 1,208 HA. OF SLOPELAND; CONSTRUCTION
OF RIVER DIKES; AGRICULTURAL MODERNIZATION FACILITIES;
VILLAGE WATER SUPPLY; AND LIMITED CONSULTING SERVICES
FOR DETAILED DESIGN AND SUPERVISION OF PROJECT IMPLE-
MENTATION. PROPOSED TERMS ARE 27 YEAR AMORTIZATION
INCLUDING 7 YEAR GRACE PERIOD, 8-1/4 PERCENT INTEREST.
REPUBLIC OF KOREA TO BE BORROWER AND AGRICULTURAL
DEVELOPMENT CORPORATION (ADC) THE EXECUTING AGENCY.

3. TOTAL KOREAN DEMAND FOR FOODGRAINS HAS INCREASED
IN RECENT YEARS DUE TO BOTH POPULATION GROWTH AND
PER CAPITAL CONSUMPTION. AT SAME TIME, NET GRAIN
IMPORTS, WHICH WERE 0.5 MILLION TONS IN 1966, ROSE
TO 3.2 MILLION TONS IN 1973 AT TOTAL COST OF OVER
\$500 MILLION. GOVT HAS BEEN DISSATISFIED WITH
AGRICULTURAL SECTOR'S PERFORMANCE AND HAS PLACED
HIGH PRIORITY ON DEVELOPMENT OF RURAL SECTOR UNDER
THIRD FIVE-YEAR PLAN (1972-1976) IN ORDER TO INCREASE
AGRICULTURAL PRODUCTION AND NARROW GAP IN INCOMES
BETWEEN RURAL AND URBAN POPULATION. GOVT ALSO
INSTITUTED SAE MAEUL (NEW COMMUNITY) MOVEMENT TO HELP
STRENGTHEN COMMUNITY AND AREA DEVELOPMENT EFFORTS
IN RURAL SECTOR.

4. IN OCTOBER 1973 BANK PROVIDED TECHNICAL ASSISTANCE
(TA) OF \$230,000 FOR PREPARATION OF IMJIN-NAMGANG
AREA DEVELOPMENT PROJECT. NAMGANG IS LARGE WATERSHED
DEVELOPMENT REGION IN SOUTHERN KOREA, WHILE IMJIN
IS LARGE-SCALE IRRIGATION DISTRICT IN NORTHERNMOST
PART OF COUNTRY, SOUTH OF IMJIN RIVER AND ABOUT 27
KM. NORTH OF SEOUL CITY. CONSULTANTS INITIALLY
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CONCENTRATED EFFORTS ON IMJIN AREA.

5. TOTAL INVESTMENT COST OF PROJECT IS ESTIMATED AT
\$39.4 MILLION, INCLUDING \$15.8 MILLION FOREX COMPONENT.
IN ADDITION, GOVT HAS REQUESTED THAT ABOUT \$3.2 MILLION
OF INTEREST AND OTHER CHARGES BE CAPITALIZED AND
INCLUDED IN LOAN. (SINCE TA FOR NAMGANG AREA DEVELOP-
MENT PROJECT IS STILL GOING ON, RECOVERY OF \$130,000

OF INITIAL TA COST WILL BE TAKEN UP FOR REFINANCING
WHEN THIS PROJECT IS CONSIDERED AT LATER STAGE.)
FOREX ESTIMATES ARE BASED ON ASSUPMTION ALL CIVIL
WORKS CONTRACTS WOULD BE EXECUTED BY FOREIGN CONTRACTORS,
WHICH WILL BE REDUCED IF ALL OR PART ARE AWARDED
TO DOMESTIC CONTRACTORS. GOVT HAS AGREED TO PROVIDE
NECESSARY LOCAL CURRENCY FUNDS FROM BUDGET RESOURCES.
BORROWER WILL RELEND TO ADC AND NATIONAL AGRICULTURAL
COOPERATIVES FEDERATION, THROUGH TWO SUBSIDIARY LOAN
AGREEMENTS, AMOUNTS OF LOAN PROCEEDS TO BE EXPENDED
BY EACH ON TERMS AGREEABLE TO BANK.

6. ALL MAJOR CIVIL WORKS CONTRACTS FOR IRRIGATION
FACILITIES, LAND CONSOLIDATION, LAND RECLAMATION AND
RIVER DIKES WILL BE SUBJECT TO INTERNATIONAL COM-
PETITIVE BIDDING IN ACCORDANCE WITH BANK'S GUIDELINES
FOR PROCUREMENT. AGRICULTURAL MODERNIZATION FACILITIES
AND VILLAGE WATER SUPPLY PORTIONS OF PROJECT WILL BE
DIVIDED INTO SUITABLY SIZED MINOR CIVIL WORKS AND
MATERIALS AND EQUIPMENT CONTRACTS FOR INTERNATIONAL
COMPETITIVE BIDDING OR INTERNATIONAL SHOPPING. CIVIL
WORKS CONTRACTORS WILL PROVIDE THEIR OWN CONSTRUCTION
EQUIPMENT. ADC WILL BE RESPONSIBLE PROCUREMENT
AGENCY FOR LAND IMPROVEMENT WORKS AND FOR IRRIGATION
AND FLOOD CONTROL AND FARM MODERNIZATION FACILITIES;
MINISTRY OF HEALTH AND SOCIAL WELFARE AND NACF WILL
BE RESPONSIBLE FOR VILLAGE WATER SUPPLY PORTION AND
MARKETING AND STORAGE FACILITIES, RESPECTIVELY.

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INFO OCT-01 EA-06 ISO-00 CIAE-00 PM-03 H-01 INR-05 L-02

NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-01 XMB-02 OPIC-03

CIEP-01 LAB-01 SIL-01 OMB-01 STR-01 CEA-01 IO-10

NEA-06 AGR-05 /094 W

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P 290716Z NOV 74
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7. SINCE ADC'S TECHNICAL STAFF HAS ALREADY DEVELOPED EXPERIENCE IN IRRIGATION PROJECTS IN KOREA AND ABROAD, THEY WILL DO ENGINEERING AND DESIGN FOR PROJECT AS WELL AS CONSTRUCTION SUPERVISION. FOREIGN CONSULTANTS WILL BE EMPLOYED IN ACCORDANCE WITH BANK'S GUIDELINES ON USES OF CONSULTANTS TO ASSIST IN DETAILED DESIGN AND CONSTRUCTION SUPERVISION, CONSULTING TEAM OF EIGHT EXPERTS LED BY IRRIGATION ENGINEER WOULD BE REQUIRED FOR TOTAL OF 62 MAN-MONTHS.

8. AS PROJECT IMPLEMENTATION WILL BE SHARED RESPONSIBILITY OF SEVEN GOVT MINISTRIES AND AGENCIES, TWO COMMITTEES WILL BE ESTABLISHED BOTH AT CENTRAL LEVEL FOR POLICY FORMULATION AND AT LOCAL LEVEL FOR DAY-TO-DAY IMPLEMENTATION. ADC, WHICH WILL ASSUME OVERALL RESPONSIBILITY FOR PROJECT EXECUTION, IS SEMI-AUTONOMOUS GOVT BODY CREATED IN 1970 AND IS SUPERVISED BY MINISTRY OF AGRICULTURE AND FISHERIES. ADC AND PREDECESSORS HAVE WORKED EXTENSIVELY IN IRRIGATION AND LAND DEVELOPMENT SINCE 1940.
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EXECUTING AGENCY WILL APPOINT PROJECT MANAGER WHO WILL WORK IN CLOSE COOPERATION WITH CENTRAL AND LOCAL COORDINATING COMMITTEES. TO DATE, ADC HAS RECEIVED SIX FOREX LOANS FROM IBRD/IDA AND USAID, TOTALLING \$113.45 MILLION.

9. POPOSED PROJECT IS CONSIDERED TO BE TECHNICALLY SOUND AND ECONOMICALLY JUSTIFIED. ECONOMIC INTERNAL RATE OF RETURN IS ESTIMATED AT ABOUT 14 PERCENT. PROJECT WOULD GENERATE SIGNIFICANT ADDITIONAL FARM INCOME; HELP KOREA BECOME SELF-SUFFICIENT IN FOOD-GRAIN PRODUCTION; REALIZE FOREX SAVING FROM REDUCED FOODGRAIN IMPORTS OF ABOUT \$2.0 MILLION PER ANNUM; CREATE EMPLOYMENT OPPORTUNITIES DURING CONSTRUCTION PERIOD AND AFTER PROJECT COMPLETION FOR MAINLY UNSKILLED AND SEMI-SKILLED LABOR; IMPROVE RURAL WATER SUPPLY. IMPROVEMENT OF INCOMES AND LIVING CONDITIONS OF SMALL FARMERS IN AREA WOULD HELP STEM FURTHER MIGRATION TO SEOUL METROPOLITAN AREA. USADB SUPPORTS PROPOSAL AND RECOMMENDS

FAVORABLE NAC ACTION.

10. REQUEST SEOUL'S COMMENTS FOR NAC AGENCIES,INFO
USADB MANILA, PURSUANT TO STATE 119795 DTD 3 JULY
1972.
SULLIVAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CONSTRUCTION, WATER SUPPLY SYSTEM, IRRIGATION, BANK LOANS, DEVELOPMENT PROGRAMS, DAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 29 NOV 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974MANILA14023
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740346-0385
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t1974113/aaaaacin.tel
Line Count: 229
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 07 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07-Aug-2002 by kelleyw0>; APPROVED <12 DEC 2002 by MorefiRH>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PROPOSED ADB LOAN FOR IMJIN AREA DEVELOPMENT PROJECT (KOREA)
TAGS: EAID, EFIN, KS, ADB-1
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005